

15.5 Taxable Benefits Policy

Policy Statement

It is the policy of the Province of Nova Scotia to comply with Canada Revenue Agency (CRA) rules and regulations regarding taxable benefits and the issuance of tax reporting slips.

Definitions

BENEFIT

A benefit is a good or service provided to a taxpayer or to a person who does not deal at arm's length with the taxpayer (i.e., the taxpayer's spouse/partner, child, or sibling). This taxpayer is typically an employee but can also be a person related to the employee, an individual who holds an office or person related to the individual that holds office.

A benefit includes an allowance or reimbursement of a taxpayer's personal expense. The benefit may be paid in cash or be a benefit "in kind" – where the benefit is the actual good, service, or property provided to the taxpayer.

TAXABLE BENEFIT

Whether or not a benefit is taxable depends on the type of benefit and the reason that the taxpayer receives it, whether an employee receives an economic advantage that can be measured in monetary value and whether that individual is the primary beneficiary of the benefit.

Examples of taxable benefits may include personal use of government-owned automobiles, parking, board and lodging, tuition fees, etc.

FAIR MARKET VALUE

Fair Market Value (FMV) is the highest price that can be obtained in an open market between knowledgeable, willing parties who are dealing at arm's length. The cost to the employer is not normally a factor in determining the value of the benefit.

Policy Objectives

The purpose of this policy is to provide guidance for the consistent application of CRA rules and regulations for taxable benefits and the issuance of appropriate tax reporting slips.

Application

This policy applies to all departments, agencies, boards, commissions, and Crown corporations of the Province for payments made outside of normal salary arrangements. This includes payments made by the Province to an individual in their own name or payments to third parties on behalf of the individual. Individuals include Ministers, Deputies Ministers, MLAs, permanent, temporary and casual employees, and others in receipt of taxable benefits from the Province, such as grant and scholarship recipients.

Policy Directives

- Issuance of tax reporting slips provides individuals with verification of amounts to report as income on their personal income tax returns. All taxable payments should be appropriately coded before being processed.
- The full amount of HST paid on a taxable benefit payment must be included as part of the benefit reported on a tax reporting slip. The reasoning is that an individual would have paid 100% of the fee plus any HST if they had paid the fee personally. Therefore the true benefit is the full tax-included total.
- When an Accounts Payable document is entered, the Taxable Benefit code must be entered on the Accounts Payable line 31. (This code triggers the record to be included in the Taxable Benefits reports and year-end data file).
- Tax reporting slips must be produced and mailed by the end of February each year. Any mail returned due to incorrect or outdated addresses should be sent to the Financial Service Delivery Branch (FSDB) to be held until the individual calls looking for their tax slip. FSDB is not required to search for new addresses for these individuals.
- Each individual taxpayer is responsible for preparing a complete and correct income tax return each year. Any amounts not reported by tax reporting slips must still be claimed appropriately by the individual.
- Taxable benefits and payments are made throughout the year. Those paid through either payroll or accounts payable must be identified and appropriately categorized to ensure proper taxation and reporting. Items appropriately categorized and paid through the SAP HR/Payroll system will be properly taxed and reported on a T4 slip. Items identified and appropriately coded for payment via accounts payable will be reported on a T4A slip. The Financial Reporting Group responsible for the preparation and issuance of tax reporting slips for payments processed via accounts payable that are deemed to be a taxable benefit. Payroll Accounting

and Tax Compliance Group is responsible for the preparation and issuance of tax reporting slips for payments processed via the SAP HR/Payroll system. Tax reporting slips will be issued on or before the end of February the year following the tax year in which the payment was made or benefit was enjoyed.

Accountability

FINANCIAL SERVICE DELIVERY BRANCH, DEPARTMENT OF SERVICE NOVA SCOTIA AND INTERNAL SERVICES

The Financial Reporting Group of the Financial Service Delivery Branch (FSDB), Department of Service Nova Scotia and Internal Services is responsible for:

- preparing tax reporting slips by the end of February for all taxable benefit payments processed through the accounts payable system
- delivering tax reporting slips
- filing the required tax reporting information slips and summary with CRA
- sending out a T4A instructions memo to departments in mid-November and reminder in early December and responding to Directors of Finance about any unresolved questions or issues
- preparing tax reporting slip amendments or cancellations year-round and providing duplicate slips upon request.

THE PAYROLL ACCOUNTING AND TAX COMPLIANCE GROUP OF FSDB, DEPARTMENT OF SERVICE NOVA SCOTIA AND INTERNAL SERVICES

The Payroll Accounting and Tax Compliance Group of FSDB, Department of Service Nova Scotia and Internal Services is responsible for:

- providing guidance and advice to the Financial Advisory Service and HR communities regarding taxable benefits and other special payroll-related payments
- properly categorizing and coding payments made via the SAP HR/Payroll system
- producing tax reporting slips before the end of February of the year following the year the payment was made or benefit enjoyed
- distributing tax reporting slips to individuals
- filing the required tax reporting information slips and summary with CRA

DEPARTMENTS, CROWN CORPORATIONS, AGENCIES, BOARDS AND COMMISSIONS

Departments, Crown corporations, agencies, boards, and commissions are responsible for:

- identifying and providing clear detail on the use of both cash and non-cash taxable benefits (e.g., adjudicators, cleaning services, translators, transcribers,

beaver/coyote trappers, etc.)

- coding invoices appropriately for entry into the SAP accounts payable system
- notifying the recipient of the taxable nature of a payment or benefit
- running reports of taxable benefit coded data for review
- reviewing reports of taxable benefit coded data and noting all errors for correction
- correcting coding errors and omissions
- issuing or mailing tax reporting slips on or before the end of February
- responding to managers'/staff questions, problems, and concerns arising from this issue
- notifying FSDB of any questions or issues that cannot be resolved by their Financial Advisory Services Units.

TIR - REAL PROPERTY SERVICES

- annual provision of a report to FSDB on government owned, rented, and leased properties having parking spaces and the government department, crown corporations, agencies, boards and commissions which occupy those spaces.
- provision of advice regarding the fair market value (FMV) of parking spaces provided to employees

Monitoring

FSDB, Department of Service Nova Scotia and Internal Services and Advisory Services, Department of Finance and Treasury Board (FTB) are responsible for ensuring compliance with this policy.

Internal Audit Centre is responsible for monitoring departments' compliance with this policy.

References

Canada Revenue Agency – Employers' Guide to Taxable Benefits and Allowances
<<https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4130/employers-guide-taxable-benefits-allowances.html>>

Canada Income Tax Act

Enquiries

Financial Services Delivery Branch
Department of Service Nova Scotia and Internal Services
(902) 722-5044

Appendix

Appendix 15-D Taxable Benefits

Approval date: **January 9, 2003**
Approved by: **Executive Council**

Effective date: **July 5, 2001**
Administrative update: **June 10, 2019**

Appendix 15-D

Taxable Benefits

Whether or not a benefit is taxable depends on whether an taxpayer receives an economic advantage that can be measured in monetary value and whether that taxpayer is the primary beneficiary of the benefit.

Description

(link to CRA Guide here)

RESEARCH GRANTS

Research grants are only included in income to the extent that they exceed the total of the allowable expenses.

FEEES FOR SERVICE

Fees for service rendered for taxpayers that are not employees. Some recipients will have already prepared their taxable income information including the T4A amount. They need only make note of this for CRA and show where the income has been included on their tax return. The amount should not be reported twice.

Individuals who provide services and bill by invoice are generally considered to be self-employed. As a result, they are responsible for accounting for their income accordingly, since no T4A will be issued (need examples here).

BOOKS, SUPPLIES

Reimbursement of cost of books or supplies used for courses taken that are primarily for the employee's benefit.

COURSE FEES

Tuition fees paid to or on behalf of an taxpayer or their children for a designated post-secondary institution (university, community college, etc.) A receipt for tax purposes (T2202) may be issued by the institution to the student and can be claimed as a deduction from income on their tax return if the individual is also issued a t-slip requiring the payment to be included income. A deduction cannot be claimed for tuition and course fees if the student was reimbursed and the payor did not issue a t-slip requiring the amount to be reported as income.

Courses taken to maintain or upgrade employer-related skills are primarily for the **benefit of the employer**. Other business-related courses, although they may not be directly related to the job, often **benefit the employer** too. The fees in these situations are not a taxable benefit. In these situations, the student cannot claim the tuitions and fees as a tax deduction, even if a T2202A is issued by the educational institution.

Personal interest or technical courses not related to your business are taken for the **employee's benefit**. Fees paid for such courses are considered a taxable benefit.

PROFESSIONAL DUES

Membership fees reimbursed or paid on behalf of an taxpayer represent a taxable benefit unless the membership is a condition of employment or the employer is the primary beneficiary of the payment. The condition of employment terms may be formally documented in a job description. If not, it becomes a judgment call by the department considering if it is reasonable for the employee to have the membership to support their skill set. Memberships may be required by law for some practicing professionals (e.g., CPA P Eng, lawyer). In all situations where you pay or reimburse an employee's professional membership dues and the primary beneficiary is the employee, there is a taxable benefit. For example, a lawyer's dues are not taxable, but a golf membership is taxable. Individuals may not claim any related tax deduction for dues if the reimbursement/payment has not been included in their income as taxable.

PERSONAL EXPENSES

Free board and lodging or lodging that is provided at an unreasonably low rate.

If board and lodging is provided to an employee free of charge, the employee receives a taxable benefit. This benefit is calculated at the fair market value of the board and lodging provided. If the board or lodging is subsidized, the employee still receives a taxable benefit but rather, is calculated at the fair market value of the lodging minus any amount that the employee paid.

An exception to this rule is if the lodging is provided to an employee who works at a special work site or a remote location. Special work sites are generally seen as an area where temporary duties are performed by an employee that because of its distance, the employee is not expected to return daily from the work site to his or her principal place of residence so keeps a self-contained domestic establishment.

Self-contained domestic establishment is a place of residence where a person normally sleeps and eats. It is generally a living unit with restricted access that contains a kitchen, bathroom, and sleeping facilities. A room in a hotel is not ordinarily

considered to be a self-contained domestic establishment. There are particular conditions that a situation must meet in order for the benefit to be excluded as income.

TRAVEL ALLOWANCE

Payment made to an employee as a fixed, recurring allowance instead of a reimbursement of actual travel expenses, is considered an unaccountable cash allowance. These payments are paid through the SAP HR/Payroll system and taxed and reported as employment income. For those individuals who require a vehicle to perform their job duties (i.e., it is a condition of employment), a form T2200 - Declaration of Conditions of Employment is issued by Payroll. This form may allow employees to deduct some of the business-use portion of their vehicle expenses (gas, maintenance, depreciation, etc.) as an employment expense deduction to offset the allowance that will be included in income on their T4.

PARKING

Parking refers to spaces for taxpayers in a parking lot maintained by the employer, whether the property is owned or leased. The benefit should be assessed on an individual basis as to the fair market value (FMV) of the space.

Employer-provided parking is usually a taxable benefit for an employee, regardless of whether the employer owns the lot or not. FMV of the parking must be calculated even if the employer is not charged for the parking in any way. In most rural areas of the province, parking is generally free, so the FMV of the parking benefit is \$0. In Halifax/Dartmouth, the FMV of parking can vary considerably, so the benefit should be assessed accordingly based on specific location, type of lot (indoor/outdoor/partially covered) and availability. TIR Real Property Services should be consulted when assessing FMV.

There are certain exceptions to the taxability of parking:

Legislatively, if the employee has a disability and is being provided parking, there is no taxable benefit. Administratively,

Also, the CRA has determined that there are three acceptable exceptions to the taxability of parking spaces:

- (1) that the parking is provided to an employee who must regularly use a vehicle to perform his or her employment,
- (2) if the business operates where parking is available free of charge to employees and other people, and

(3) if the employer provides scramble parking. The CRA has noted that this a very fact-specific exercise but has provided guidance on the matter, as outlined below.

Regular Business Use:

Parking that is used for business purposes describes situations where the employee is required to use a vehicle in the performance of his or her job – this does not include an employee’s commute to and from work. The use must also be regular in nature, which the CRA considers to be an average of 3 or more days in a 5-day work week.

Parking Spaces Available to the General Public:

This limited exception is typically reserved for businesses that operate from a shopping centre or industrial park, where parking is available free of charge to both employees and the public.

Scramble Parking:

CRA defines scramble parking as situations where there are significantly fewer parking spaces than there are employees who want parking and the parking is available on a first-come, first-serve basis. What is crucial here is not the number of parking spaces provided but rather, the number of employees actually looking for a parking spot on any given day. Because of the unpredictable nature of obtaining a parking space, CRA does not view such arrangements as taxable benefits.

HONORARIUM

From a CRA perspective, payments for services made to an individual are either employment income or business income. The CRA does however support the notion of small payments that are not subject to the usual tax rules. The criteria for these payments include:

- They are nominal - \$500 or less in a calendar year;
- They are made to an individual for voluntary services for which fees are not legally or contractually required;
- They are not reflective of the value of the work done;
- They are made on a one-time or non-routine basis.

Examples of an appropriate honorarium payment would be payment as a “thank you” or gesture of goodwill and appreciation to a guest speaker or lecturer, or payment to a volunteer for assistance in setting up and supporting a special event.

An honorarium is not appropriate if the employer is obtaining the services of a professional speaker or consultant who performs the requested service for a living. These individuals would be considered self-employed and should receive a fee for service or consulting payment.

Honorarium payments to employees:

Honorariums paid to employees will be treated as employment income and subject to deductions at source for Income Tax, CPP contributions and EI premiums.

These payments will be reported on the employee's T4. However, if the payment relates to an area completely outside the realm of that employee's role, and the payment is of nominal value (\$500 or less), the same tax treatment below for non-employees can be applied.

Honorarium payments to non-employees:

Residents of Canada:

An honorarium paid to a resident of Canada who is not an employee is not subject to tax deductions; however, this does not mean that the recipient does not have to pay taxes on the amount received. The individual will be issued a T4A for the payment, and when they file their tax return for the year, any taxes owing on the amount paid will be assessed by the CRA.

Non-residents of Canada:

Where the service was performed in Canada, honorariums paid to non-residents of Canada are subject to a flat rate income tax deduction and are reported on a T4A-NR. If the service was performed outside of Canada, there is no tax deduction or reporting requirements.

BOARD FEES/STIPENDS

Agreed fee to be paid to non-employees for attendance at board meetings or paid for service provided.

Note: Board fees/stipends paid to employees may be considered employment income rather than directors' fees. Fees paid to both employees and non-employees should be reported on a T4 slip.

SCHOLARSHIPS, GRANTS, BURSARIES

Paid to students to enable them to pursue their education and earn a degree, diploma, or other certificate of graduation. May be used by the student at a post-secondary level such as university, college, technical institute, etc., or in pursuit of a trade, academic discipline, or professional program. (This tax code does not include

allowances for books or supplies or living expenses.) Has there been a change re: scholarships as a taxable benefit? The current CRA guide for employers states that scholarships, bursaries and free tuition for family members is no longer a taxable benefit to employees, the benefit may be income to the family member.

Scholarships for Employees:

- If provided on the condition of returning to employment: the scholarship/ bursary is considered to be employment income for the employee/former employee.

Scholarships for Family Members:

- If provided to family members of the employee or if the employer deals with the taxpayer at arm's length, not included in employee's income as a benefit unless the benefit is provided as a substitute for salary, wages or remuneration. Rather, it is included in a T4A slip for the family member.

OTHER

This code to be used only for those taxable benefits not covered by codes above. Include details in the description field.

Some taxable benefits and payments, other than salaries, are reported on the T4 by Payroll including the following:

VEHICLE BENEFIT

Personal use of an employer-owned or -leased vehicle results in a taxable benefit by the employee or a person related to the employee. Personal use includes travel between home and work, driving for personal use, vacation trips, having the keys in your possession after work hours so that the vehicle is available to you. Any portion of expenses reimbursed to the province will reduce the amount of benefit taxable to the individual.

Should we add guidance on calculating the vehicle benefit or is this done elsewhere? From the CRA:

The benefit for an automobile that an employer provides is generally:

- A standby charge for the year; plus
 - This charge is for the benefit the employee receives when an employer-owned vehicle is made for his or her personal use.

An operating expense benefit for the year; minus

- Operating expenses include: gasoline and oil, maintenance charges, repair expenses, less insurance proceeds, licenses and insurance.

- Operating expenses do not include: interest, capital cost allowance for an automobile the employer owns, lease costs for a leased automobile, parking costs, highway or bridge tolls.
- Any reimbursements employees make in the year for benefits otherwise included in the employee's income for the standby charge or the operating expenses.

TRAVEL ALLOWANCE

Flat rate monthly allowance paid bi-weekly via SAP HR/Payroll.

Note: If an employee is paid an allowance that is a combination of flat-rate and reasonable per-kilometre allowances that cover the same use for the vehicle, the total combined allowance is a taxable benefit and has to be included in the employee's income.